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US Electric Utilities

Catching Up On Corporate Renewable PPAs

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Interest Growing beyond the Tech Sector

We hosted our latest UBS Conference Call with Lily Donge and team at the Rocky Mountain Institute (RMI) to discuss the latest trends in the corporate PPA market. With a recent decline in corporate PPAs, they note sector trends shifting towards smaller projects, with new participants coming increasingly from outside the tech sector, notably in retail and healthcare to pursue additional renewable projects, with smaller projects enabling more incremental additions and less concentrated counterparty credit risk. In tandem, PPA duration is also shortening modestly towards ~10-15 years.

The End of the Large PPA era? Possibly.

RMI notes a significant drop in new PPAs between 2015 and 2016, with procurement falling from 3.25 GWs to 1.56 GWs. As some of the larger early-movers come close to their renewable targets, we see movement towards smaller capacity sizes as smaller players enter the markets, implying that the days of 100 MW+ PPAs will become rarer, with sub-100 MW more likely. Moreover, RMI notes that with increasingly smaller procurement demands as low as 5-10 MWs, focus has shifted on aggregation as a tool to join multiple smaller procurements into one benefitting from the economies of scale of larger counterparts. Broadly, we expect those with development platforms predicated on these types of transactions will encounter more challenges given the need to couple aggregate and given increasingly complex credit considerations, particularly for nascent Community Choice Aggregations (CCA) – another source of new renewable load growth aside from Corporates.

With Costs Coming Down, Solar PPAs becoming increasingly attractive

RMI notes that with solar system costs coming down over 75% in the past six years, interest in solar PPAs has been growing as of late. So far for 2017, approximately half of the procurements have been solar PPAs. Overall wind to solar ratio is likely around a 70/30 split. RMI cautions, however, that this trend is based on fuel preference, as RMI sees corporates relatively technology neutral, rather by the cost competitiveness of wind and solar; and thus, long-term dependent on the economics. In terms of location, RMI notes most of the corporate solar is in the Southwest around California; with some interest in Texas, but no fixed procurements so far.

Looking Ahead to 2020: Need to Hit Future Clean Energy Targets

While new corporates went down in 2016, we see a possible upswing closer to 2020, as many of the corporate sustainability targets are set to be achieved by 2020. We emphasize a large number of Top companies across a wide variety of sectors have already committed to specific renewable energy goals with timelines closer to the 2020 period. More to the point with PTCs slated to step-down off the full 100% rate under commence construction extensions in 2020, we perceive a further run-up to take advantage of these expiring benefits.

2015 Rewind? Probably Not.

RMI notes new corporate renewables PPAs decreased meaningfully in 2016, falling from 3.25 GWs in 2015 to only 1.56 GWs of procurement last year. Moreover, with 2017 year-to-date procurement currently around 1 GW, RMI doesn't expect any immediate reversal in the near term. In fact, RMI anticipates a slowing trend for new corporate PPAs, even with prices for new solar and wind coming down further. As some of the larger early-corporate movers reach their 100% renewable targets, we see the buyer profile diversifying away from big tech companies, as well as project sizes decreasing to smaller capacity numbers and smaller deals.

Who is participating? Not Just Big Tech.

While large tech companies still play a significant role in the corporate PPA space, we highlight an increasing trend of diversification. Since January 2016, 14 corporations have signed deals with many of them being first time transactors. We note growing interest by industries such as healthcare, pharmaceuticals, manufacturing, and large retailers. Moreover a large portion of Fortune 500, and the majority of Fortune 250 companies have renewable targets in place, likely pushing them into the corporate PPA space to achieve their goals. How these new companies will participate in the space will depend on the load size of the operation, but expect them to likely come in below the procurement sizes originally experienced with the tech firms.

Aggregation: Splitting the Pie

With greater amount of smaller players entering the corporate PPA market and average procurement demand decreasing, RMI notes increased interest in aggregation. Aggregation would combine corporate buyers who want to procure utility scale renewables due to their economies of scale, but do not have the ability to participate at that volume. Thereby, allowing these companies to participate without taking on the entirety of the contract. RMI notes this remains a rather new tool in the space, but as market players become more diversified, we expect increased potential for more aggregated deals.

Sustainability, not just Economics Driving PPA Interest

RMI notes that sustainability represents the main driver behind the interest in corporate PPAs; with companies not just aiming to maximize the economics of one of these transactions, but instead primarily focusing more on achieving their sustainability targets at a reasonable price. In fact, according RMI, companies mainly aim to just more or less break even over the lifetime of the PPA; with even a slight loss being viewed as an acceptable--a sort of implied REC purchase price. However, RMI snote this still leaves sensitivity to the power wholesale market price, as corporates might not intend to make a return out of a project still remain cautious to not losing too much money. Overall, we understand this focus on sustainability as a general positive indicator for the corporate PPA sector, as the number of sustainability targets in the corporate space has been growing meaningfully as of late.

Where are the Hot Markets?

While Texas has been the single biggest market historically, we see increasing interest in other US regions. We note Texas still contributes the plurality of procurement, followed, however, by growing demand in SPP and PJM, as well as a fair amount of interest in CAISO. We highlight that while the majority of interest has been in wind, there exists growing demand for solar. In fact, approximately half of 2017 procurement to date has been in solar.

What are other trends?

We note meaningful shifts as of late not only in terms of location and fuel source, but also in regards to duration, price and buyer profile.

Solar Getting in the Game

While most of corporate PPA deals have been on wind, RMI sees increasing interest in solar, with about half of the 1 GW of procurement to date being in the solar space. RMI notes this is mostly a result of solar's declining installation cost, which has made it more economically competitive, not, however, as a significant shift in buyer preference.

Location, Location, Location...

RMI sees significant locational variability in how firms procure their renewables. Options vary between near-by generation, synthetic delivery, green tariffs, and behind the meter. We note preference depend on the sector, with tech companies preferring projects located closer to their data centers than their headquarters, while retailers are showing interest in synthetic delivery. RMI notes there are no concrete figures on behind-the-meter procurement, but we expect on-sight generation to be between 5-15% for participating corporates; thus, implying behind-the-meter is not enough to meet the 100% renewable targets announced by some corporates as of late. We also highlight growing interest in green tariffs, until now mainly seen in Nevada through NV Energy.

Tax credits

RMI highlights that most corporates are not interested in the equity ownership, i.e. not taking the tax benefits. RMI believes the organizational separation of roles between energy procurement and treasury, responsible for taxes has much to do with the decision not to elect to take the tax equity attributes directly in these projects.

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